

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
CLERK**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WARREN COUNTY CLERK

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Warren County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Warren County Clerk had net revenues of \$2,127,816, which was a \$47,188 increase from the prior year. Except for reimbursed expenses in the amount of \$29,179, the clerk paid 25% of net revenues to the Warren County Fiscal Court in the amount of \$493,594. This was an increase of \$1,342 from the prior year. In addition, expenditures decreased by \$37,995.

Report Comments:

- The County Clerk Should Not Have A Deficit Balance In The 75% Operating Fund
- The County Clerk Should Strengthen Internal Controls Over Payroll And Leave Time Records

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Buchanon, Warren County Judge/Executive
Honorable Dorothy "Dot" Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2005. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2006 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Michael Buchanon, Warren County Judge/Executive
Honorable Dorothy "Dot" Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Clerk Should Not Have A Deficit Balance In The 75% Operating Fund
- The County Clerk Should Strengthen Internal Controls Over Payroll And Leave Time Records

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 25, 2006

WARREN COUNTY
DOROTHY "DOT" OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services	\$	37,381
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Fiscal Court		20,638
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	2,568,853
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Usage Tax		12,386,956
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Tangible Personal Property Tax		6,595,950
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Notary Fees		39,836
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Lien Release Fees		20,650
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Miscellaneous		15,241
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Other-

Marriage Licenses		27,427
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Miscellaneous Licenses		1,050
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Deed Transfer Tax		577,727
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Delinquent Taxes	313,048	22,546,738
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		71,478
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Real Estate Mortgages		249,279
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Chattel Mortgages and Financing Statements		239,784
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Powers of Attorney		8,273
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All Other Recordings		131,622
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Charges for Other Services-

Candidate Filing Fees		850
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Postage		22,022
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Copywork	56,815	780,123
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Other:

Miscellaneous		4,643
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Interest Earned		3,023
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Total Revenues		23,392,546
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The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY "DOT" OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,994,187	
Usage Tax	12,014,804	
Tangible Personal Property Tax	2,329,402	
Licenses, Taxes, and Fees-		
Delinquent Tax	56,996	
Legal Process Tax	<u>85,098</u>	\$ 16,480,487

Payments to Fiscal Court:

Tangible Personal Property Tax	784,580	
Delinquent Tax	58,799	
Deed Transfer Tax	548,784	
Miscellaneous	<u>660</u>	1,392,823

Payments to Other Districts:

Tangible Personal Property Tax	3,218,127	
Delinquent Tax	<u>114,306</u>	3,332,433

Payments to Sheriff 3,234

Payments to County Attorney 51,184

Operating Expenditures:

Other Charges-

Miscellaneous and Bank Transactions	<u>4,569</u>	
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Total Expenditures \$ 21,264,730

Net Revenues 2,127,816

Payments to State Treasurer:

75% Operating Fund	1,634,222	
25% County Fund	<u>493,594</u>	<u>2,127,816</u>

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY "DOT" OWENS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2005

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2005	\$ (144,698)	\$ 0	\$ (144,698)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,634,222		1,634,222
Fees Paid to State - County Funds (25%)		493,594	493,594
Total Funds Available	1,489,524	493,594	1,983,118
<u>Expenditures</u>			
Warren County Government		493,594	493,594
Personnel Services-			
Clerk's Salary	87,032		87,032
Deputies Salaries	979,235		979,235
Clerk's Expense Allowance	3,600		3,600
Training Incentives	2,395		2,395
Employee Benefits-			
Employer's Share Social Security	77,540		77,540
Employer's Share Retirement	102,489		102,489
Employer's Paid Health Insurance	110,972		110,972
Employer's Paid Dental Insurance	8,749		8,749
Employer's Paid Life Insurance	664		664
Miscellaneous Insurance	3,692		3,692
Other Payroll Expense	145		145
Unemployment Insurance	683		683
Contracted Services-			
Computer Leases and Maintenance	219,823		219,823
Copier Rental & Maintenance	30,761		30,761
Other Charges-			
Office Supplies	17,760		17,760
Postage	23,000		23,000
Other Office Expense	3,100		3,100

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY "DOT" OWENS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges- (Continued)			
Prepare Tax Bills	\$ 11,285		\$ 11,285
Insurance and Bonds	5,474		5,474
Telephone	5,238		5,238
Recording Books/Binders	12,207		12,207
Clerk's Dues and Conventions	4,616		4,616
Travel Expenses	958		958
Maintenance & Repairs	1,061		1,061
Books and Guides	1,046		1,046
Office Equipment	2,954		2,954
Total Expenditures	<u>1,716,479</u>	<u>493,594</u>	<u>2,210,073</u>
Fund Balance - December 31, 2005 (See Note 6)	<u>\$ (226,955)</u>	<u>\$ 0</u>	<u>\$ (226,955)</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2005

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives during 2004 in the amount of \$20,474. Interest of \$246 was earned during the year. There were not any grant expenditures during 2005. The unexpended grant balance was \$20,720 as of December 31, 2005.

Note 5. Leases

A. Software Management, Inc.

On January 15, 2005, the Clerk entered into two 60-month lease agreements with Software Management, Inc (SMI) for the lease and maintenance of computer hardware, software, and the licensing and updating of the software. The lease agreements require a monthly lease payment of \$18,217 (\$13,267 for hardware and \$4,950 for the software) for a total lease obligation over 5 years of \$1,093,020. The following tables denote the Clerk's lease obligation for the remainder of the lease term.

Computer Equipment

Calendar Year	Annual Principal	Annual Interest	Remaining Lease Obligation
2006	\$ 54,827	\$ 15,361	\$ 210,565
2007	58,791	11,398	140,376
2008	63,041	7,148	70,187
2009	67,597	2,590	
	<u>\$ 244,256</u>	<u>\$ 36,497</u>	<u>\$ 0</u>

Software License and Equipment Maintenance

Calendar Year	Annual Principal	Remaining Lease Obligation
2005	\$ 148,410	\$ 445,232
2006	148,410	296,821
2008	148,410	148,411
2009	148,411	
	<u>\$ 593,641</u>	<u>\$ 0</u>

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
(Continued)

Note 5. Leases (Continued)

B. Other Leases

The office of the County Clerk was also committed to seven additional lease agreements with three companies for copiers, fax machine and a postage meter. The balances on the lease agreements as of December 31, 2005 were \$42,749

Note 6. Subsequent Events

As of December 31, 2005, the Warren County Clerk had a \$226,955 deficit balance in the 75% operating fund maintained with the state treasurer. As of August 31, 2006, the deficit balance had decreased to \$172,201. The County Clerk is currently taking steps to eliminate the deficit balance by the end of her term on December 31, 2006.

WARREN COUNTY
DOROTHY "DOT" OWENS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The County Clerk Should Not Have A Deficit Balance in The 75% Operating Fund

As of December 31, 2005, the Clerk's 75% operating fund held with the state treasurer had a deficit balance of \$226,955. KRS 64.350 notes that for counties having a population of seventy thousand (70,000) or more, the salaries of the county clerks and sheriffs and of their deputies and all necessary office expenses, including the equipping, furnishing, maintaining, and operation of the offices, shall be paid out of the State Treasury in amounts not to exceed seventy-five percent (75%) of the fees collected by the officers respectively, and received into the treasury. As of August 31, 2006, the deficit balance in the 75% operating fund was \$172,201.

The Clerk has until the end of her term December 31, 2006 to eliminate the deficit in the 75% operating fund. We recommend the Clerk take the necessary steps to eliminate the deficit.

County Clerk's Response: Warren County has been losing Revenue and I was aware of this. I continue to look for ways to clear this deficiency. I have asked Fiscal Court for help if I am unable to do so.

INTERNAL CONTROL – REPORTABLE CONDITION:

The County Clerk Should Strengthen Internal Controls Over Payroll And Leave Time Records

The County Clerk's time records for both paid and unpaid leave times as well as leave balances for some employees were not accurate for 2005. There were two employees who received paid vacation and/or sick leave in error. We notified the County Clerk of our findings on November 10, 2005, and she recomputed every employee's leave balance resulting in: 1) one employee's check was adjusted for leave without pay for \$379; 2) a reimbursement of \$2,604 was obtained from another employee for taking unearned leave; and 3) other adjustments were made to employees' leave balances. Posting earned leave to the employees' leave records before it was earned caused these errors. This was not in accordance with the County Clerk's personnel policies.

The errors resulted from weaknesses in the County Clerk's internal controls over timesheet and leave time records. We recommend that the County Clerk implement stronger timekeeping procedures.

1. Leave time taken should be recorded on employee leave records.
2. Employees should submit written leave requests that are signed by the supervisor and employee.
3. Employees should sign time records and accompanying leave forms. Supervisors should sign the employees' time records and accompanying leave forms.
4. The County Clerk, supervisors, and employees should periodically determine that their leave records agree.

WARREN COUNTY
DOROTHY "DOT" OWENS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005

INTERNAL CONTROL – REPORTABLE CONDITION (CONTINUED):

The Clerk Should Strengthen Internal Controls Over Payroll And Leave Time Records (Continued)

We recommend the County Clerk consistently record all paid and unpaid leave time taken and earned as well as leave balances remaining for all employees in accordance with the County Clerk's personnel policies.

County Clerk's Response: I have taken into consideration the recommendations by the auditor and I am making every effort in controlling my records.

INTERNAL CONTROL – MATERIAL WEAKNESS

None.

PRIOR YEAR:

The following comment was in the prior year audit report and remains uncorrected as of the audit report date.

The Clerk Should Not Have A Deficit Balance in The 75% Operating Fund

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Buchanon, Warren County Judge/Executive
Honorable Dorothy "Dot" Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Warren County Clerk for the year ended December 31, 2005, and have issued our report thereon dated October 25, 2006. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- The County Clerk Should Strengthen Internal Controls Over Payroll And Leave Time Records

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of The Financial Statements Performed
In Accordance With Government Auditing Standards

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Clerk's financial statements for the year ended December 31, 2005, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Not Have A Deficit Balance In The 75% Operating Fund

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 25, 2006

